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MORRIS, NICHOLS, ARSHT & TUNNELL LLP

1201 NORTH MARKET STREET  
RECEIVED P.O. Box 1347  
2014 APR 11 PM 3 31 WILMINGTON, DELAWARE 19899-1347  
302 658 9200  
DELAWARE P.S.C. 302 658 3989 FAX

KARL G. RANDALL  
302 351 9465  
302 225 2566 FAX  
krandall@mnat.com

April 11, 2014

Ms. Alisa Bentley  
Secretary  
Delaware Public Service Commission  
Suite 100, Cannon Building  
861 Silver Lake Boulevard  
Dover, DE 19904

Re: Application of Artesian Water Company, Inc.  
For A Revision of Rates

Dear Ms. Bentley:

Enclosed please find the original and ten (10) copies of the application of Artesian Water Company, Inc. ("Applicant") for a general rate increase pursuant to Subchapter III of Title 26 of the Delaware Code, along with the Applicant's direct testimony and supporting schedules and exhibits prepared in accordance with the Commission's Minimum Filing Requirements. Also enclosed are a form of proposed Public Notice and a check in the amount of \$100.00 for the required filing fee. Applicant also seeks to put changes in rates in effect on an interim basis and submits herewith tariff sheets detailing the interim rates.

If you have any questions or concerns regarding the enclosed, please contact me or the appropriate Applicant official at your earliest convenience.

Very truly yours,



Karl G. Randall

KGR/ar  
Enclosures

cc: Mr. Robert Howatt, Executive Director (w/o enc.)  
Mr. David Bonar, Division of the Public Advocate  
Mr. David B. Spacht (w/o enc.)

8159169

Alisa  
All com  
BDB  
Dm.na  
Alisa  
JD  
Cmnie  
Kevin

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF DELAWARE

ORIGINAL

IN THE MATTER OF THE APPLICATION \*  
OF ARTESIAN WATER COMPANY, INC. \*  
FOR AUTHORITY TO INCREASE RATES \*  
AND CHARGES FOR WATER SERVICE \*  
(Filed April 11, 2014) \*

PSC Docket No. 14- 132

APPLICATION OF  
ARTESIAN WATER COMPANY, INC.  
FOR A REVISION OF RATES

VOLUME I OF II

DELAWARE P.S.C.

2014 APR 11 PM 3 13

RECEIVED

Alisa  
All com  
Bob  
Dina  
Alisa  
Jo  
Connie  
Kern

Artesian Water Company, Inc.  
664 Churchmans Road  
Newark, DE 19702  
Telephone: (302) 453-6900  
Facsimile: (302) 453-6957  
E-mail: [artesian@artesianwater.com](mailto:artesian@artesianwater.com)

MORRIS, NICHOLS, ARSHT & TUNNELL LLP  
Michael Houghton (#2179)  
R. Judson Scaggs, Jr. (#2676)  
Karl G. Randall (#5054)  
1201 N. Market Street  
P.O. Box 1347  
Wilmington, DE 19899-1347  
Telephone: (302) 658-9200  
Facsimile: (302) 658-3989  
E-mail: [mhoughton@mnat.com](mailto:mhoughton@mnat.com)

April 11, 2014

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APPLICATION OF  
ARTESIAN WATER COMPANY, INC.  
FOR A REVISION OF RATES

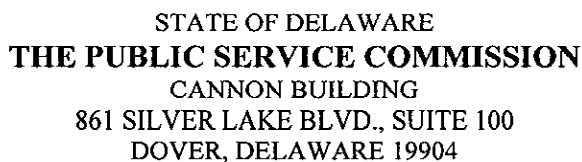
VOLUME I OF II

Artesian Water Company, Inc.  
664 Churchmans Road  
Newark, DE 19702  
Telephone: (302) 453-6900  
Facsimile: (302) 453-6957  
E-mail: [artesian@artesianwater.com](mailto:artesian@artesianwater.com)

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E-mail: [mhoughton@mnat.com](mailto:mhoughton@mnat.com)

April 11, 2014





# FILING COVER SHEET

- IF A TELECOMMUNICATIONS FILING, WHAT TYPE OF SERVICE IS IMPACTED ?

BASIC	COMPETITIVE	DISCRETIONARY
<p>1. <b>Basic</b> – The most common type of loan, typically used for personal or business needs. It is often secured by collateral.</p> <p>2. <b>Competitive</b> – A loan where the interest rate is determined by market conditions and the borrower's creditworthiness.</p> <p>3. <b>Discretionary</b> – A loan where the lender has the discretion to set the interest rate and terms based on their own judgment.</p>	<p>1. <b>Competitive</b> – A loan where the interest rate is determined by market conditions and the borrower's creditworthiness.</p> <p>2. <b>Discretionary</b> – A loan where the lender has the discretion to set the interest rate and terms based on their own judgment.</p>	<p>1. <b>Discretionary</b> – A loan where the lender has the discretion to set the interest rate and terms based on their own judgment.</p>

- IS EXPEDITED TREATMENT REQUESTED? YES\_\_\_ NO X

4. SHORT SYNOPSIS OF FILING: Artesian Water Company, Inc. requests authority to increase its rates and charges for water service to provide the Company with an opportunity to earn a fair rate of return. The increase is directly attributable to increased capital investments in non-revenue producing plant and increased costs including operating and maintenance expenses and depreciation expenses.

5. DOES THIS FILING RELATE TO PENDING DOCKETS: YES NO X

IF YES, LIST DOCKET(S) NO(S):

6. IS PUBLIC NOTICE REQUIRED: YES X NO

IF YES, PLEASE ATTACH COPY OF PROPOSED PUBLIC NOTICE.

7. APPLICANT'S CONTACT PERSON: NAME: DAVID B. SPACHT  
TITLE: CFO AND TREASURER  
PHONE: (302) 453-6912  
FAX: (302) 322-6149

8. DID YOU PROVIDE A COMPLETE COPY OF THE FILING TO THE PUBLIC ADVOCATE?

YES    X       NO       IF YES, WHEN? 4/11/14 by courier

9. FILING FEE ENCLOSED: AMOUNT: \$100.00

**NOTE:** House Bill 681, enacted into law 7/13/98, authorizes the Commission to recover the cost of time spent by in-house staff to process all filings initiated after the date of enactment. You may be required to reimburse the Commission for staff time.

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION \*  
OF ARTESIAN WATER COMPANY, INC. \*  
FOR AUTHORITY TO INCREASE RATES \*  
AND CHARGES FOR WATER SERVICE \*  
(Filed April 11, 2014) \*

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APPLICATION OF  
ARTESIAN WATER COMPANY, INC.  
FOR A REVISION OF RATES

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Newark, DE 19702  
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Facsimile: (302) 453-6957  
E-mail: [artesian@artesianwater.com](mailto:artesian@artesianwater.com)

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Facsimile: (302) 658-3989  
E-mail: [mhoughton@mnat.com](mailto:mhoughton@mnat.com)

April 11, 2014

Artesian Water Company, Inc. ("AWC" or the "Company") hereby submits this application for authority to increase rates and charges for water service pursuant to 26 *Del. C.* §§ 201, 209, 304 and 306.

I. APPLICANT

1. AWC is a Delaware public water utility, regulated by the Delaware Public Service Commission ("Commission"). AWC distributes and sells water to residential, commercial, industrial, governmental, municipal and utility customers throughout the state of Delaware. As of December 31, 2013, the Company was serving 79,676 metered, mostly residential customers across the state of Delaware. AWC is a wholly owned subsidiary of Artesian Resources Corporation. AWC is a Delaware corporation providing water service to customers pursuant to rates last established by the Commission in Order No. 8934, dated December 22, 2011 in Docket No. 11-207.

2. Communication with regard to this application may be directed to the following persons:

David B. Spacht  
CFO & Treasurer  
Artesian Water Company, Inc.  
664 Churchmans Road  
Newark, Delaware 19702  
(302) 453-6900  
E-mail [dspacht@artesianwater.com](mailto:dspacht@artesianwater.com)

Michael Houghton  
MORRIS, NICHOLS, ARSHT & TUNNELL LLP  
1201 N. Market Street  
P.O. Box 1347  
Wilmington, DE 19899-1347  
Telephone: (302) 658-9200  
E-mail: [mhoughton@mnat.com](mailto:mhoughton@mnat.com)  
Counsel for the Applicant

## II. REQUESTED COMMISSION ACTION

3. AWC requests Commission authority to implement revised rates that afford the Company the opportunity to increase rates by an overall 15.91 percent to collect an additional \$9,983,823 in annual water service revenues from customers beginning June 10, 2014. The actual proposed increase is less since the Company has been permitted to recover specific investments made in infrastructure through the assessment of a 3.32 percent Distribution System Improvement Charge ("DSIC"). Since the DSIC rate is set to zero when temporary rates are placed into effect, customers would experience an incremental increase of 12.59 percent, the net of the overall 15.91 percent increase less the DSIC rate currently in effect of 3.32 percent. If the Commission elects to further analyze AWC's proposal for revising its rates and charges for water service, the Company respectfully requests that the Commission approve temporary rates in accordance with 26 *Del. C.* § 306 (c).

## III. THE NEED FOR RATE RELIEF

4. AWC has developed a financial analysis based on data consistent with the period ended September 30, 2014. The testimony of David L. Valcarenghi, filed with this application, describes and supports the Company's need for additional water service revenues. The application also includes the testimony of Pauline M. Ahern, CRRA, who fully describes and supports the Company's cost of capital requirements; and the testimony of John F. Guastella, who describes and supports the development of the reasonable rates that will be assessed by the Company.

5. AWC's corporate mission is to provide a safe, reliable and quality water supply for customers, while working to increase access to quality water in communities not previously served by a regulated water provider.



6. AWC continues to invest in essential capital improvements to ensure that customers will continue to receive safe, reliable and high-quality water supply and a resilient distribution network for delivery of that supply.

7. AWC has invested approximately \$20.5 million since the conclusion of the last rate proceeding, Docket No. 11-207, on critical supply and distribution projects for well replacements and redevelopment, as well as the use of new water treatment technology. These critical investments address ever growing and increasingly stringent regulatory requirements and assure that the high quality water AWC produces reaches its customers through AWC's network of distribution facilities without interruption. In addition to amounts already invested, AWC will invest another \$26.6 million on a number of priority capital projects that will be completed by the end of September 2014, including approximately \$11.0 million as part of the Company's on-going effort to regularly replace aging infrastructure and \$9.5 million to continue to assure our sources of supply remain viable, efficient and capable of providing an uninterrupted supply of high quality water by rehabilitating wells, pump stations and treatment facilities. AWC also expects to invest approximately \$1.0 million to relocate various water mains to accommodate state and local government projects. Cumulatively, since the last rate case, AWC will have invested approximately \$47.1 million on these vital infrastructure projects in a 36-month period so that AWC can continue to meet increasingly stringent regulatory requirements while also assuring an ample water supply to meet its customers' demands. The testimony of C. Thomas deLorimier, filed contemporaneously with this application, provides a thorough discussion of the Company's distribution network and the need for projects the Company has undertaken and expects to complete by the end of September 2014.

8. AWC continues to invest in improvements necessary to ensure water delivered to customers is of the utmost quality. During the test period in this application, the Company will invest approximately \$4 million in new water treatment technology for an advanced water treatment system at its Llangollen wellfield to ensure removal of 1,4 dioxane, a newly detected contaminant, from the water supply. In addition to the significant capital costs, AWC will incur ongoing additional costs related to the operation of the new treatment system of approximately \$120,000 per year that is not currently reflected in AWC's rates. This investment in treatment equipment and the related increase in annual operating costs is just the most recent example of how water utilities must address the detection of contaminants found at much lower levels of detection as the scientific ability to detect them continues to improve.

9. Although AWC will have invested \$47.1 million in critical non-revenue generating infrastructure projects through September 2014, the requested Rate Base in this application has grown by only \$9 million since AWC's last rate application three years ago, which significantly reduces the otherwise dramatic effect this sort of investment might have on customer rates. The reduction in recoverable investment is achieved through the Company's strategic and effective use of developer financing through Contributions in Aid of Construction as prescribed in PSC Docket 15 and the use of specific federal tax allowances such as accelerated tax and bonus depreciation provisions that reduce the Company's current actual tax burden. Those savings are invested by AWC in infrastructure and reflected as a deduction from rate base as a deferred tax. While those taxes are payable in future periods, the customer enjoys the benefits of a reduced base upon which the Company would be permitted to earn a fair rate of return until those amounts are actually paid.

10. AWC's last rate proceeding was resolved through a negotiated settlement agreement that was approved by the Commission in PSC Order Number 8097. The approved settlement afforded the Company an opportunity to earn an overall rate of return of 7.91 percent, including a 10.0 percent return on equity. Since the last rate proceeding, AWC has not been able to earn its allowed rate of return. In the historic test year ending December 31, 2013, the Company earned an overall rate of return of 6.59 percent and the earned rate of return is expected to further deteriorate to 5.70 percent by the end of September 2014. Accordingly, AWC has filed this application seeking authority to revise its rates to recover substantial amounts expended for capital improvements and operating costs, including depreciation, and also to provide the Company an opportunity to earn a fair and reasonable rate of return.

11. AWC has continued its efforts to control and reduce operating costs. Recently, AWC hired an individual to act as the Company's central purchasing agent who specifically focuses on identifying and implementing opportunities to reduce costs. AWC has also furthered its Information Technology automation efforts and has been able to reduce Information Technology department personnel by four staff. Nonetheless, AWC has experienced, and will continue to experience in the near term, increases in operating costs, including those related to payroll and employee benefits, purchased power, purchased water, water quality testing and chemicals.

12. AWC needs to retain a trained and experienced workforce to perform critical functions across a complex integrated water system comprising multiple sources of supply with varying water characteristics and treatment technology requirements with water distributed through ten distinct service levels. It is their responsibility to ensure customers receive high-quality water and reliable service. In order to attract and retain qualified personnel

capable of meeting this responsibility, AWC must be able to offer competitive wages and benefits. To ensure that AWC's employee wages remain competitive, an independent compensation study commissioned by AWC's Compensation Committee of the Board of Director's (the "Committee") was recently conducted. The Committee, made up of entirely independent Director's (as defined by NASDAQ), sifted through 11 potential consulting firms, choosing a firm which met specific criteria including that they were certified as independent from any business or personal relationship with any member of the Company's management or Board of Directors. The successful bidder conducted two separate studies reviewing the pay and wage levels of executives and, separately, other operational personnel over the course of approximately nine months. The Consultant concluded after reviewing the study that the Company's current levels of pay and wages were appropriate.

13. AWC has managed its payroll expenditures carefully and properly. Between December 31, 2010 (historic test year in PSC Docket 11-207) and December 31, 2013 (historic test year in this application), payroll expense (not including benefits) increased a total of 2.99 percent. Comparatively, data from the U.S. Bureau of Labor Statistics show that Delaware area businesses have seen increases in wages in the range of 4 percent to 5 percent over the same period of time. AWC's full-time employee base increased by nine positions since the conclusion of the last case, from 213 employees on December 31, 2010 to 222 on December 31, 2013, including the addition of operational employees through the end of the Test Period to ensure the continued reliability of the system. In this case, AWC is seeking a \$1.5 million increase in payroll and benefit costs over the total expense included in PSC Docket 11-207, which represents an approximate 8.3 percent increase for the entire three year period, or 2.7 percent per annum over the three year period since the last rate case. Considering the significant cost

pressures placed upon employment compensation costs, especially in the area of rising medical insurance costs where companies have seen double digit increases, AWC's pro forma payroll and benefit costs are both fair and reasonable.

14. AWC takes seriously its responsibility for ensuring the reasonableness of its operating costs, including water purchased for customers. AWC's annual purchased water expense associated with the Chester Water Authority interconnection was \$2,750,688 in 2007. Chester notified the Company that it would raise its rates some 27% over the next three years. Previously, Chester had increased its rates modestly with increases amounting to less than 2% annually. But Chester Water is and remains an unregulated, quasi-governmental agency that sets rates based on management recommendations to its independent board of directors. From the time Artesian received the notice in 2007, the Company made a concerted effort to understand the need for the increase, through the use of independent consultants, and made extensive efforts to negotiate amicably with Chester Water for equitable relief from such increase. In 2010, after all efforts were exhausted, AWC instituted the only remaining option it had at its disposal, a lawsuit against the Chester Water Authority challenging the rate assigned by Chester as excessive and seeking relief on behalf of AWC's customers. AWC has spent approximately \$1.6 million to date attempting to mitigate the excessive rate assessed by Chester and requests recovery of those costs over the remaining life of the contract. If successful, AWC would pass along to its customers not only \$1,008,000 in annual savings associated with the Chester Water rate increases currently in this rate application but also amounts paid by its customers since 2007 when those rates were passed along to AWC's customers in rate applications in 2008 and 2011. The amortized cost of this proceeding would pale in comparison to the long-term savings of over \$1,008,000 per year afforded the customer for this effort. However, no ruling has been rendered

in the case pending before the Federal Court for the Eastern District of Pennsylvania and AWC must continue to pass along noticed and expected increases associated with this interconnection. As such, AWC expects Chester to increase its purchased water rates by 10% on or before July 1, 2014, in part because Chester has not increased its rates since AWC filed its lawsuit in 2010. The approximate \$347,000 annual increase in Chester Water purchased water cost included in this application represents the Company's best estimate of an expected increase based on past experience. Should AWC not be notified of an increase prior to the beginning of Chester's fiscal year, July 1, 2014, it will reduce the requested increase in this application.

15. Similar to other water utility companies, AWC is a highly capital-intensive company and, therefore, must have an opportunity to earn a sufficient rate of return to attract the necessary capital to accommodate significant construction projects for repair and rehabilitation, water conservation, and a tightening of state and federal water quality standards. Not only does the water industry maintain the highest multiple of nearly \$4.00 of investment for every \$1.00 revenue, compared to the multiple of \$1.47 for gas companies, but a continuing reduction in customer consumption brought about by changing plumbing codes, environmental efforts to conserve water and shrinking household size has spread historic infrastructure costs across a constantly shrinking volumetric base. Add the decreasing customer water consumption to the challenges of increasing regulation of water quality and the fact that water utilities are the only utility with an ingestible product and you have a significant increase in risk associated with the ability of a water utility to earn a fair return on that investment. In this rate application, AWC seeks an overall rate of return of 8.40 percent, which includes a return on equity of 10.90 percent applied to capitalization ratios as of the end of the test period on September 30, 2014. As noted previously, AWC has been unable to earn its allowed rate of return of 7.91 percent over

the last three years due to all the factors noted above. However, any reduction in allowed return on equity would compound the inability for the Company to earn a fair rate of return. The inability of the Company to have an opportunity to earn that fair rate of return puts AWC at significant disadvantage when investors compare AWC to other investment options that are available to them in the market place. Artesian has built a strong balance sheet, with a capital ratio of 50 percent debt and 50 percent equity, allowing it to access the appropriate financial market at the appropriate time. That flexibility has afforded the customer a reduction in overall rate of return by reducing borrowing costs as well. Conversely, as AWC has requested in this application, an increase in the return on equity would provide the stable base necessary to maintain a strong balance sheet and strengthen its position in the market so that AWC can continue to obtain funds to meet its on-going water infrastructure investment requirements.

#### IV. TEMPORARY RATES

16. If the Commission elects not to implement the full level of rates as requested by the Company, AWC respectfully requests authority to implement temporary rates in accordance with 26 *Del. C.* § 306 (c), which authorize a utility to implement temporary rates that will increase current annual revenues by the lower of \$2,500,000 or 15 percent of the gross utility annual revenues.

17. AWC requests authority to implement temporary rates that will enable the Company to recover \$2,460,674 in additional annual water service revenues. The expected revenues were derived by increasing current rates based on the ratio of temporary revenues per statute of \$2,500,000 to Pro Forma Revenues at Current Rates.

18. AWC has been unable to earn its authorized fair rate of return on its investments due to a combination of factors, including substantial investments in non-revenue

producing infrastructure projects, such as main replacements, that do not provide additional revenues for the Company, increased operating costs and declining per customer consumption.

19. AWC's water operations produced a book return of 6.59 percent in 2013, which is expected to decline to 5.70 percent by the end of September 2014. The earnings levels are well below the 7.91 percent overall rate of return granted in Docket No. 11-207, and significantly below the 8.40 percent overall rate of return sought by AWC in this rate application.

20. AWC requests relief from providing a surety bond with the implementation of temporary rates. AWC is strong financially and has access to sufficient financial resources to provide a refund, if so ordered by the Commission. Indeed, AWC has a Line of Credit of \$40,000,000 with Citizens Bank, and a Line of Credit of \$20,000,000 with CoBank. The Commission allowed AWC to implement temporary rates in its prior rate case, Docket No. 11-207, without the need for a surety bond. AWC agrees to abide by any Commission order that would necessitate a refund of amounts collected through the use of the temporary rates.

21. AWC has developed revised tariff pages for the assessment of temporary rates that will be effective 60 days after the date of the rate application. AWC estimates that Temporary Rates will enable the Company to collect approximately \$1,025,281 in additional revenues through the end of the suspension period. This application includes appropriate analyses that document and support the development of the Company's proposed Temporary Rates and show that the calculated rates are in compliance with the provisions of 26 *Del. C.* § 306 (c).



V. THE RELIEF SOUGHT

22. AWC seeks Commission approval of the rates and charges included in the attached tariff, that provide the Company the ability to collect an additional \$9,983,823 in annual water service revenues that provide the Company an opportunity to earn an overall rate of return of 8.40 percent, including a 10.90 percent return on common equity.

23. AWC requests Commission approval of various changes to its Rules and Regulations in its currently effective Operating Tariff.

24. If the Commission elects to further analyze AWC's rate application, the Company respectfully requests that the Commission approve Temporary Rates as reflected in the Temporary Tariff that will provide AWC an opportunity to collect an additional \$2.5 million in annual water service revenues.

25. AWC requests Commission approval of various changes to the Rules and Regulations set forth in its Tariff, which are described in the direct testimony of David L. Valcarenghi, filed contemporaneously herewith.

*Remainder of page intentionally left blank*

WHEREFORE, AWC respectfully requests that the Commission authorize AWC to implement revised rates and charges for water service and to effect certain changes to its Operating Tariff.

MORRIS, NICHOLS, ARSHT & TUNNELL LLP



---

Michael Houghton (#2179)  
R. Judson Scaggs, Jr. (#2676)  
Karl G. Randall (#5054)  
1201 N. Market Street  
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Wilmington, DE 19899-1347  
Telephone: (302) 658-9200  
Facsimile: (302) 658-3989  
E-mail: mhoughton@mnat.com  
*Attorneys for Artesian Water Company, Inc.*

April 11, 2014

## VERIFICATION

STATE OF DELAWARE)  
 ) SS.  
COUNTY OF NEW CASTLE)

DAVID B. SPACHT, Chief Financial Officer and Treasurer of Artesian Water Company, Inc., being duly sworn, deposes and says, based in part upon knowledge and information supplied by others, that to the best of his knowledge, information and belief the facts and statements in the Application of Artesian Water Company, Inc. for a Revision of Rates dated April 11, 2014 are true and correct.

ARTESIAN WATER COMPANY, INC.

A circular notary seal for Robin E. Thompson. The outer ring contains the text "ROBIN E. THOMPSON" at the top and "NOTARY PUBLIC" at the bottom. The inner ring contains "MY COMMISSION" at the top and "STATE OF DELAWARE" at the bottom. In the center, it says "EXPIRES APRIL 10, 2016". The seal is surrounded by a decorative border of small vertical lines.

By: David B. Spacht

By: David B. Spacht  
Title: Chief Financial Officer and Treasurer

SWORN TO AND SUBSCRIBED  
before me, this 11 day of April, 2014.

Robin E Thompson  
Notary Public

My commission expires: 4-10-2016

CERTIFICATE OF SERVICE

I, Karl G. Randall, Esquire, do hereby certify that the APPLICATION OF ARTESIAN WATER COMPANY, INC. FOR A REVISION OF RATES will be served the 11th day of April, 2014 as indicated below:

**VIA HAND DELIVERY (Original and 10 copies)**

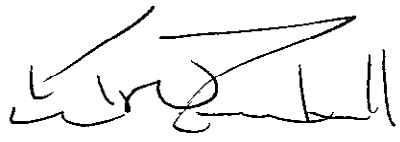
Alisa Bentley, Secretary  
Delaware Public Service Commission  
Suite 100, Cannon Building  
861 Silver Lake Blvd.  
Dover, Delaware 19904

**VIA COURIER DELIVERY**

David L. Bonar  
Public Advocate  
Division of the Public Advocate  
Carvel State Office Building  
820 French Street, 4<sup>th</sup> Floor  
Wilmington, Delaware 19801

Regina Iorii, Esq.  
Deputy Attorney General  
Division of the Public Advocate  
Carvel State Office Building  
820 North French Street, 6th Floor  
Wilmington, Delaware 19801

Julie Donoghue, Esq.  
Deputy Attorney General  
Delaware Public Service Commission  
820 North French Street, 6th Floor  
Wilmington, Delaware 19801

A handwritten signature in black ink, appearing to read 'Karl G. Randall', written over a horizontal line.

Karl G. Randall (#5054)

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION \*  
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April 11, 2014

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